

A FIELD GUIDE

TAXES

TEXAS

APRIL 2017

GLENN HEGAR • TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

A FIELD GUIDE TO THE TAXES OF TEXAS

The data represented in this report is [available in accessible data form \(Excel\)](#).

Every two years, the state of Texas collects more than \$200 billion in state taxes and fees, federal receipts, and other sources of revenue. These funds are used to pay for all of the responsibilities of the state government, including the education of more than 5 million public school students and the provision of health insurance for more than 4 million low-income Texans.

This guide provides an overview of the major Texas state taxes. The six major taxes outlined here provide nearly 90 percent of state tax collections. Read on to:

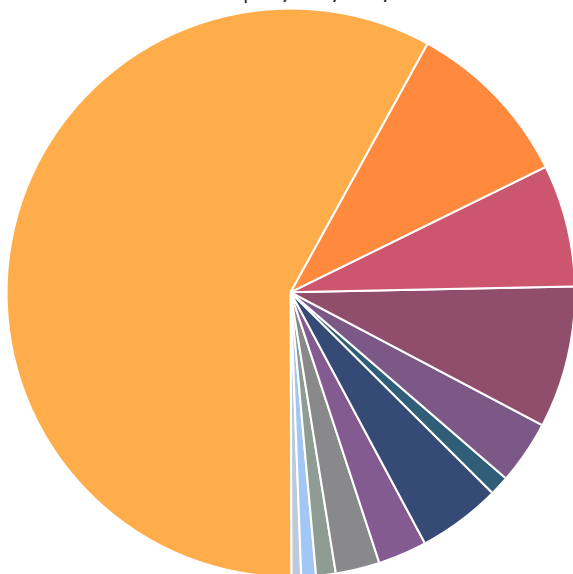
- learn how major taxes have contributed to state revenue during the past 10 years;
- see on one page the future revenue estimates, exemption forecasts and tax allocations; and
- connect to other in-depth resources about state taxes and finances.

State Tax Revenue By Source

FISCAL YEAR ENDED AUG. 31, 2016

All Funds, Excluding Trust

TOTAL = \$48,476,226,223



SALES TAXES	% OF TAXES
\$28,245,800,650	58.3%
MOTOR VEHICLE SALES AND RENTAL TAXES	
\$4,616,081,586	9.5%
MOTOR FUEL TAXES	
\$3,513,716,269	7.2%
FRANCHISE TAX	
\$3,881,176,449	8.0%
OIL PRODUCTION TAX	
\$1,704,282,653	3.5%
NATURAL GAS PRODUCTION TAX	
\$578,798,864	1.2%
INSURANCE TAXES	
\$2,226,724,848	4.6%
CIGARETTE AND TOBACCO TAXES	
\$1,388,362,823	2.9%
ALCOHOLIC BEVERAGES TAXES	
\$1,182,548,508	2.4%
HOTEL OCCUPANCY TAX	
\$521,152,526	1.1%
UTILITY TAXES	
\$434,964,944	0.9%
OTHER TAXES	
\$182,616,105	0.4%

Source: Texas Comptroller of Public Accounts, Annual Cash Report 2016

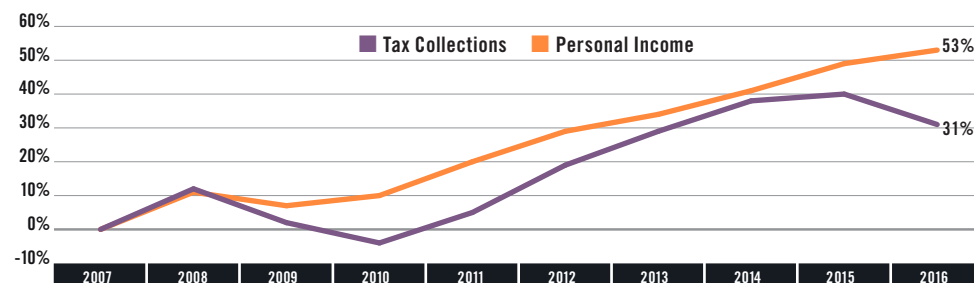
The Texas economy saw its lowest level of growth during the 2016 fiscal year since the Great Recession due in large part to continued weakness in the oil and natural gas industries. The subsequent decline in severance tax revenues, as well as franchise tax cuts and lower sales tax collections from the retail trade sector, resulted in tax revenues falling 6.2 percent from the 2015 fiscal year to \$48.5 billion in 2016.

STATE TAX COLLECTIONS AND PERSONAL INCOME

FISCAL 2007-2016

Cumulative Growth Rates

While state tax collections had seen higher annual growth rates relative to Texas personal income coming out of the Great Recession, franchise tax cuts and a slowdown in the oil and natural gas industries have resulted in a decline in collections for the first time since fiscal 2010.



Sources: Texas Comptroller of Public Accounts, U.S. Department of Commerce

Where Does Texas' Tax Revenue Come From?

While Texas is a relatively low tax state, it does rely on revenue generated by more than 30 different taxes to fund the functions of state government. Nearly all of this revenue is generated by the following major taxes:

- Texas imposes a 6.25 percent sales and use tax on sales, leases and rentals of goods, as well as taxable services such as telecommunications and amusement services.
- Motor vehicle sales within Texas are also taxed at 6.25 percent of the sales price, minus any trade-in allowance. Motor vehicle rentals are taxed between 6.25 and 10 percent on the cost, depending on the length of the rental contract.
- Texas' motor fuel tax rates can vary depending on the type of fuel; however the two most common, gasoline and diesel, are both taxed at 20 cents per gallon.
- The state's franchise tax is imposed on certain kinds of businesses operating in Texas such as corporations, banks, LLCs and partnerships. Of the millions of businesses across the state, only around 120,000 filers usually owe any tax.
- Texas' severance taxes are imposed on entities that extract nonrenewable natural resources such as oil or natural gas. Revenues from these taxes are highly variable and are levied at rates of 4.6 percent of market value for oil and condensate, and 7.5 percent of market value for natural gas.
- The state's insurance taxes include a number of premium taxes levied at rates ranging from 0.5 percent to 4.85 percent of gross premiums and various maintenance taxes.
- Texas' "sin" taxes are levied on tobacco and alcoholic beverage products, the largest of which include the cigarette tax – levied at \$1.41 per pack of 20 – and the mixed beverage taxes, which are imposed on consumers at 8.25 percent of the sales price and on business permit holders at 6.7 percent of gross receipts.

Where Does Texas' Tax Revenue Go?

For accounting and budgeting purposes, state revenue is deposited or transferred into various funds, with most going into the General Revenue Fund (GR) to be appropriated by the Legislature. Other tax revenue is deposited directly or transferred into various special funds for specific purposes. Three of the state's more prominent special revenue funds are the **State Highway Fund (SHF)**, the **Property Tax Relief Fund (PTRF)** and the **Economic Stabilization Fund (ESF)**.

The **SHF** is used for the construction, maintenance and policing of public roads. Historically, the primary revenues for this fund have been federal receipts, 75 percent of motor fuels tax net collections, most motor vehicle registration fees, and one-half of 75 percent of oil production and natural gas production tax revenues in any fiscal year that exceed fiscal 1987 collections. A constitutional amendment approved by voters in 2015 will, starting in fiscal 2018, result in revenue from the first \$2.5 billion of state sales tax collected in excess of \$28.0 billion in a fiscal year and, starting in fiscal 2020, 35 percent of motor vehicle sales and rental

taxes collected in excess of \$5.0 billion to be transferred into the **SHF**. Over the 2018-19 biennium, the Comptroller's office estimates the **SHF** will receive \$25.4 billion in total.

The **PTRF** is used, along with GR and other funds, to finance the state's K-12 public education system. The major revenue sources for this fund include the amount of franchise tax collections generated by its restructuring in fiscal 2008, and revenue generated from the \$1.00 increase in the cigarette tax rate implemented in fiscal 2007. Over the 2018-19 biennium, the Comptroller's office estimates the **PTRF** will receive \$3.6 billion in total.

The **ESF**, also known as the Rainy Day Fund, receives one-half of 75 percent of oil production and natural gas production tax revenues in any fiscal year that exceed fiscal 1987 collections, and one-half of any unencumbered GR surplus remaining at the end of each biennium. Actual and estimated values of the invested and cash balance portions of the **ESF** are shown in the table below, as well as the statutory cap its balance can reach.

State Highway Fund

	FISCAL 2016	FISCAL 2017	FISCAL 2018	FISCAL 2019
	ACTUAL	ESTIMATED	ESTIMATED	ESTIMATED
Total Revenue	\$9,655,281,783	\$10,172,944,000	\$12,814,624,000	\$12,616,792,000

Property Tax Relief Fund

	FISCAL 2016	FISCAL 2017	FISCAL 2018	FISCAL 2019
	ACTUAL	ESTIMATED	ESTIMATED	ESTIMATED
Total Revenue	\$1,885,861,643	\$1,820,551,000	\$1,742,231,000	\$1,851,967,000

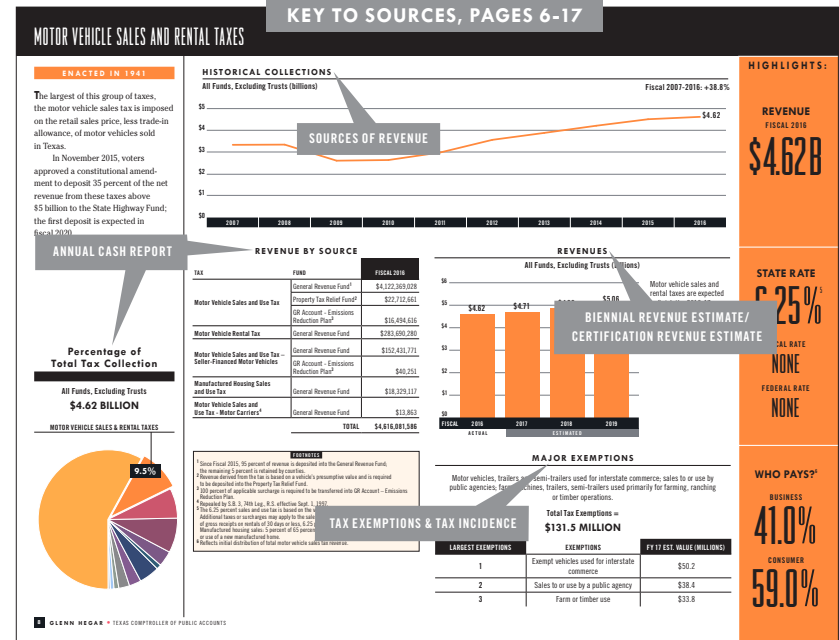
Economic Stabilization Fund

	FISCAL 2016	FISCAL 2017	FISCAL 2018	FISCAL 2019
	ACTUAL	ESTIMATED	ESTIMATED	ESTIMATED
Ending Cash Balance	\$7,875,081,472	\$7,901,928,472	\$8,462,898,472	\$8,809,922,472
Ending Invested Balance of ESF ¹	\$1,839,679,442	\$2,352,255,000	\$2,508,648,000	\$3,112,656,000
Total Ending Balance of ESF	\$9,714,760,914	\$10,254,183,472	\$10,971,546,472	\$11,922,578,472
ESF Cap	\$16,204,286,165	\$16,204,286,165	\$16,850,926,466	\$16,850,926,466

Footnote: ¹The balance includes investments of the ESF cash balance plus any gain on those investments and less any management fees paid.

Want More Details?

The Comptroller's office publishes many reports that assist state government planning and decision-making and account for state spending to the taxpayers of Texas. This guide highlights some of the current data from several of these reports, and provides links to find more in-depth or updated data. The full reports can be found at comptroller.texas.gov/transparency/reports.



Net Revenue By Source

FISCAL 2016 • ALL FUNDS, EXCLUDING TRUST

SOURCE	REVENUES	CHANGE FROM FISCAL 2015
State Tax Collections	\$48,476,226,223	-6.2%
Federal Income	\$39,473,835,181	7.6%
Licenses, Fees, Permits, Fines and Penalties	\$11,616,790,121	20.4%
Net Lottery Proceeds	\$2,219,964,919	17.2%
Land Income	\$1,139,536,193	-26.4%
Interest and Investment Income	\$1,362,295,721	-2.3%
Settlements of Claims	\$651,974,029	20.5%
Sales of Goods and Services	\$293,046,923	-31.6%
Contributions to Employee Benefits	\$54,779	-1.4%
Other Revenue Sources	\$6,047,147,065	8.2%
Total Net Revenue	\$111,280,871,155	1.7%

Note: Total may not sum due to rounding.

Non-Tax Revenue

The state's major non-tax revenue sources are federal income, fees and licenses, state lottery proceeds, land income, and proceeds from the state's investments.

Taxes That Texas Does Not Levy

Texas does not collect a state property tax. Property taxes are levied by local governmental entities, school districts and special purpose districts (see p. 20).

Texans pay only federal and not state or local income taxes. Federal dollars contributed about one-third of total state net revenue in fiscal 2016.

SALES AND USE TAXES

ENACTED IN 1961

Since fiscal 1967, sales and use taxes have been the state's single largest source of tax revenue, raising about 58 cents of every state tax dollar in fiscal 2016. The sales tax is levied on transactions. In general, it is imposed on final sales, rentals and leases of tangible personal property — physical goods or their classified equivalent — and on sales of certain services, such as the repair of tangible personal property, amusements and telephone services.

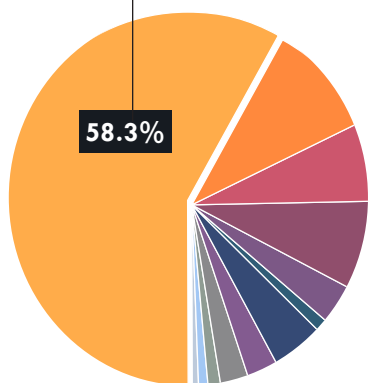
A constitutional amendment, approved in 2015, will require up to \$2.5 billion to be transferred to the State Highway Fund if net sales tax revenue exceeds \$28 billion; the first transfer is expected in 2018.

Percentage of Total Tax Collection

FISCAL 2016

All Funds, Excluding Trusts
\$28.25 BILLION

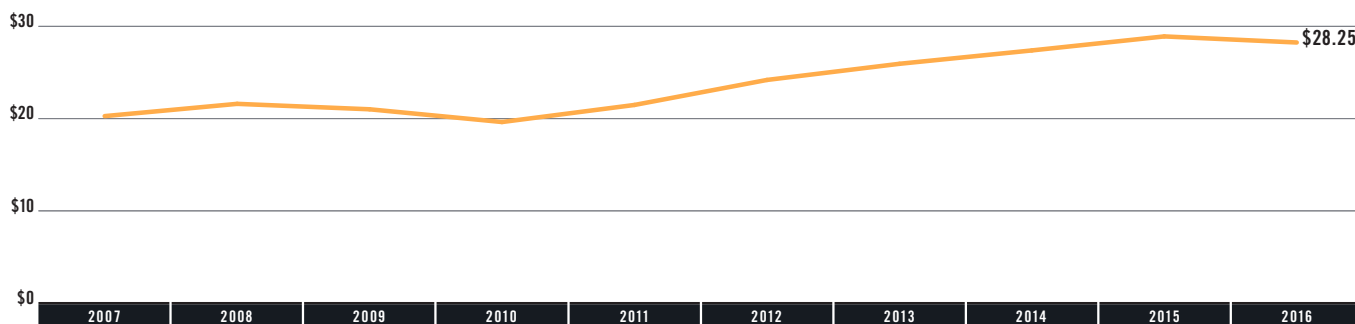
SALES AND USE TAXES



HISTORICAL COLLECTIONS

All Funds, Excluding Trusts (billions)

Fiscal 2007-2016 change: +39.3%



REVENUE BY SOURCE

TAX	FUND	FISCAL 2016
Limited Sales and Use Tax	General Revenue Fund ¹	\$17,871,416,150
	GR Account - Emissions Reduction Plan ²	\$60,662,744
Prepayments of Limited Sales and Use Tax	General Revenue Fund	\$10,190,150,921
Boat and Boat Motor Sales and Use Tax ³	General Revenue Fund	\$62,556,133
	GR Account - Game, Fish, and Water Safety	\$4,000,217
Motor Fuel Lubricants Sales Tax	State Highway Fund	\$44,500,000
Limited Sales and Use Tax - State	General Revenue Fund	\$11,682,369
Fireworks Tax ⁴	General Revenue Fund	\$0
	GR Account - Rural Volunteer Fire Department Insurance	\$74,020
Interest on Retail Credit Sales	General Revenue Fund	\$692,128
Discount for Sales Tax - State Agencies and Higher Education	General Revenue Fund	\$65,753
	GR Account - University of Texas Southwestern Medical Center Current	\$215
TOTAL		\$28,245,800,650

FOOTNOTES

¹ Taxes on certain sporting goods sales are appropriated for Texas Parks and Wildlife Department. For additional information on special allocations, refer to the *Sources of Revenue* report.

² There is a 1.5 percent diesel equipment surcharge.

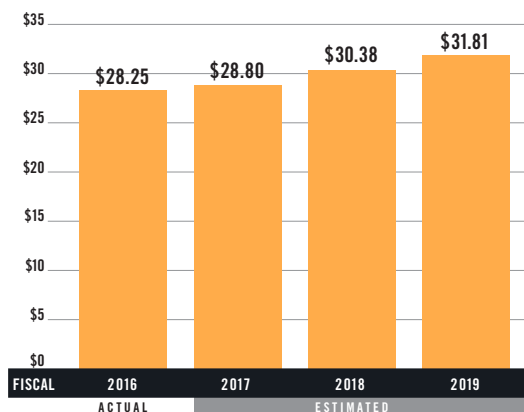
³ County tax assessor-collectors or the Texas Parks and Wildlife Department may retain 5 percent.

⁴ The 2 percent additional sales tax levied on fireworks was eliminated effective 9/1/15; in future years, an equivalent amount will be transferred to GR Account - Rural Volunteer Fire Department Insurance from General Revenue.

⁵ Reflects initial distribution of total limited sales and use tax revenue.

REVENUES

All Funds, Excluding Trusts (billions)



Sales tax revenues are projected to finish the 2016-17 biennium with a 1.3 percent growth rate over the previous biennium due to lower levels of taxable spending from the energy and retail sectors, as well as other factors. However, a higher growth rate of 9.0 percent is projected for the 2018-19 biennium.

MAJOR EXEMPTIONS

Items taxed under other Texas tax laws, including insurance premiums, motor vehicles, and motor fuel; items used in manufacturing products for sale, including materials that become part of the manufactured product; groceries, school lunches and other food sales.

Total Tax Exemptions, Exclusions, and Discounts =
\$42.0 BILLION

LARGEST EXEMPTIONS	EXEMPTIONS	FISCAL 2017 EST. VALUE (BILLIONS)
1	Total for items taxed by other law	13.8
2	Property used in manufacturing	12.6
3	Food and food products	3.0

HIGHLIGHTS:

REVENUE

FISCAL 2016

\$28.25B

STATE RATE

6.25%

LOCAL RATE

UP TO 2%

FEDERAL RATE

NONE

WHO PAYS?⁵

BUSINESS

41.8%

CONSUMER

58.2%

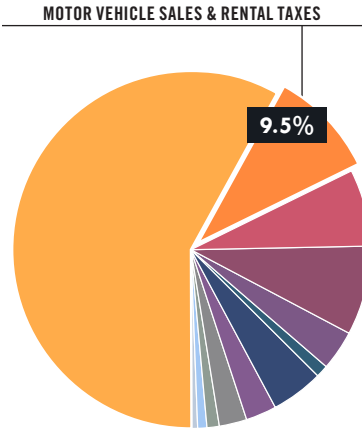
MOTOR VEHICLE SALES AND RENTAL TAXES

ENACTED IN 1941

The largest of this group of taxes, the motor vehicle sales tax is imposed on the retail sales price, less trade-in allowance, of motor vehicles sold in Texas.

In November 2015, voters approved a constitutional amendment to deposit 35 percent of the net revenue from these taxes above \$5 billion to the State Highway Fund; the first deposit is expected in fiscal 2020.

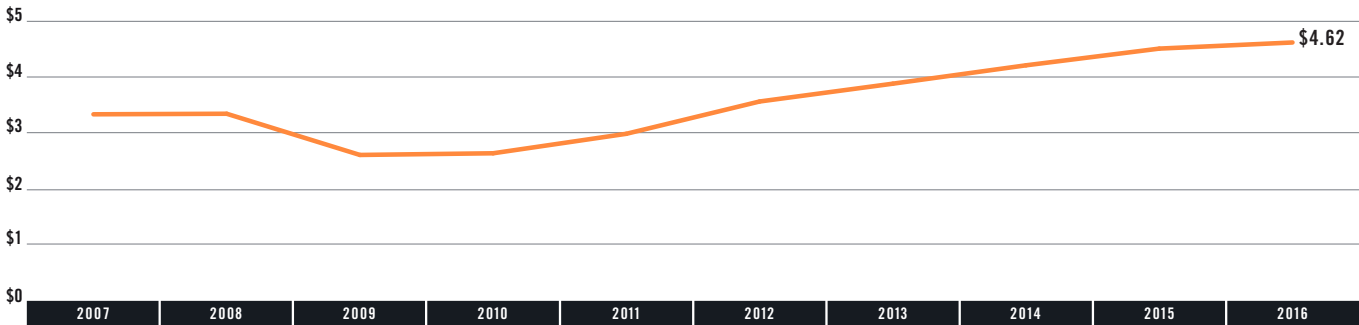
Percentage of
Total Tax Collection
FISCAL 2016
\$4.62 BILLION



HISTORICAL COLLECTIONS

All Funds, Excluding Trusts (billions)

Fiscal 2007-2016: +38.8%



REVENUE BY SOURCE

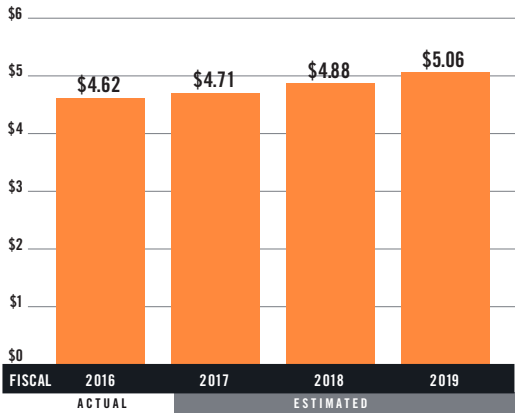
TAX	FUND	FISCAL 2016
Motor Vehicle Sales and Use Tax	General Revenue Fund ¹	\$4,122,369,028
	Property Tax Relief Fund ²	\$22,712,661
	GR Account - Emissions Reduction Plan ³	\$16,494,616
Motor Vehicle Rental Tax	General Revenue Fund	\$283,690,280
Motor Vehicle Sales and Use Tax – Seller-Financed Motor Vehicles	General Revenue Fund	\$152,431,771
	GR Account - Emissions Reduction Plan ³	\$40,251
Manufactured Housing Sales and Use Tax	General Revenue Fund	\$18,329,117
Motor Vehicle Sales and Use Tax - Motor Carriers ⁴	General Revenue Fund	\$13,863
TOTAL		\$4,616,081,586

FOOTNOTES

- ¹ Since fiscal 2015, 95 percent of revenue is deposited into the General Revenue Fund; the remaining 5 percent is retained by counties.
- ² Revenue derived from the tax is based on a vehicle's presumptive value and is required to be deposited into the Property Tax Relief Fund.
- ³ 100 percent of applicable surcharge is required to be transferred into GR Account – Emissions Reduction Plan.
- ⁴ Repealed by S.B. 3, 74th Leg., R.S. effective Sept. 1, 1997.
- ⁵ The 6.25 percent sales and use tax is based on the vehicle sales price less any trade-in. Additional taxes or surcharges may apply to the sale of certain diesel trucks. Rentals: 10 percent of gross receipts on rentals of 30 days or less, 6.25 percent on rentals of 31 to 180 days. Manufactured housing sales: 5 percent of 65 percent of the sales price on the initial sale or use of a new manufactured home.
- ⁶ Reflects initial distribution of total motor vehicle sales tax revenue.

REVENUES

All Funds, Excluding Trusts (billions)



Motor vehicle sales and rental taxes are expected to finish the 2016-17 biennium with a growth rate of 6.9 percent, and hold relatively steady, growing 6.7 percent over the following biennium.

MAJOR EXEMPTIONS

Motor vehicles, trailers and semi-trailers used for interstate commerce; sales to or use by public agencies; farm machines, trailers, semi-trailers used primarily for farming, ranching or timber operations.

Total Tax Exemptions =
\$131.5 MILLION

LARGEST EXEMPTIONS	EXEMPTIONS	FISCAL 2017 EST. VALUE (MILLIONS)
1	Exempt vehicles used for interstate commerce	\$50.2
2	Sales to or use by a public agency	\$38.4
3	Farm or timber use	\$33.8

HIGHLIGHTS:

REVENUE
FISCAL 2016

\$4.62B

STATE RATE

6.25%

LOCAL RATE

NONE

FEDERAL RATE

NONE

WHO PAYS?⁶

BUSINESS

41.0%

CONSUMER

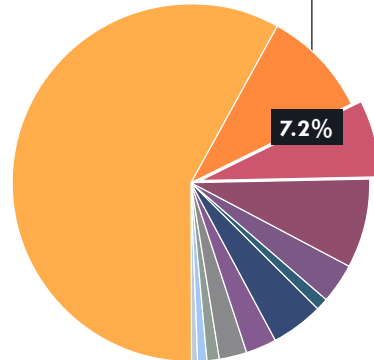
59.0%

MOTOR FUEL TAXES

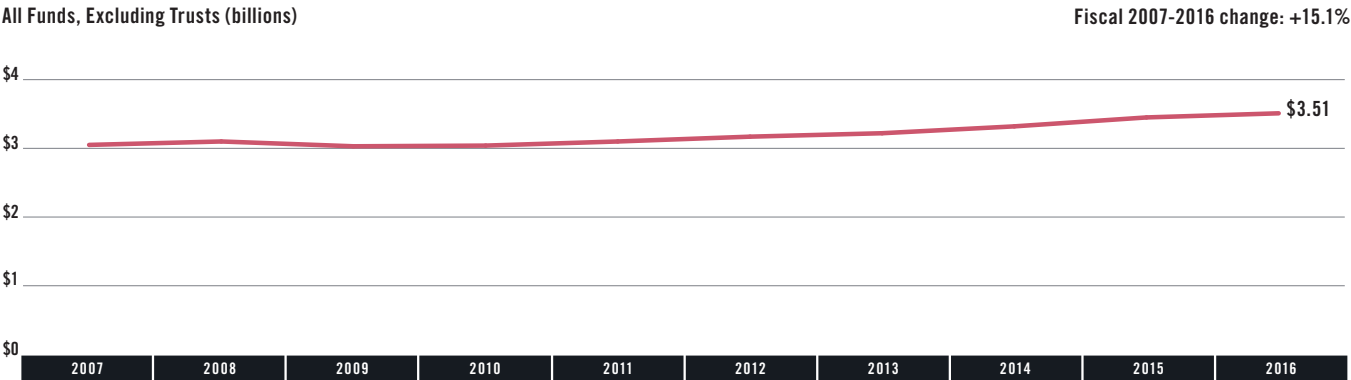
ENACTED 1923

Motor Fuel taxes consist of the state's consumption taxes on gasoline, diesel fuel and liquefied and compressed natural gas. In general, these taxes are charged on each gallon of fuel sold in Texas used to propel vehicles on Texas' public roads.

Percentage of
Total Tax Collection
FISCAL 2016
All Funds, Excluding Trusts
\$3.51 BILLION
MOTOR FUEL TAXES



HISTORICAL COLLECTIONS



REVENUE BY SOURCE

TAX	FUND	FISCAL 2016
Gasoline Tax ¹	General Revenue Fund	\$2,681,139,236
Diesel Fuel Tax ²	General Revenue Fund	\$827,966,715
Liquefied Gas Tax ³	General Revenue Fund	\$32,035
Liquefied and Compressed Natural Gas Tax ²	General Revenue Fund	\$4,578,282
TOTAL		\$3,513,716,269

FOOTNOTES

¹ After deductions for refunds and other purposes, the tax revenue is allocated as follows:
Available School Fund 0002 – 25 percent
State Highway Fund 0006 – 50 percent
The remaining 25 percent is also deposited to the State Highway Fund, except that the first \$7.3 million is deposited to the County and Road District Highway Fund 0057.

² After deductions for refunds, the tax revenue is allocated as follows:
Available School Fund 0002 – 25 percent
State Highway Fund 0006 – 75 percent

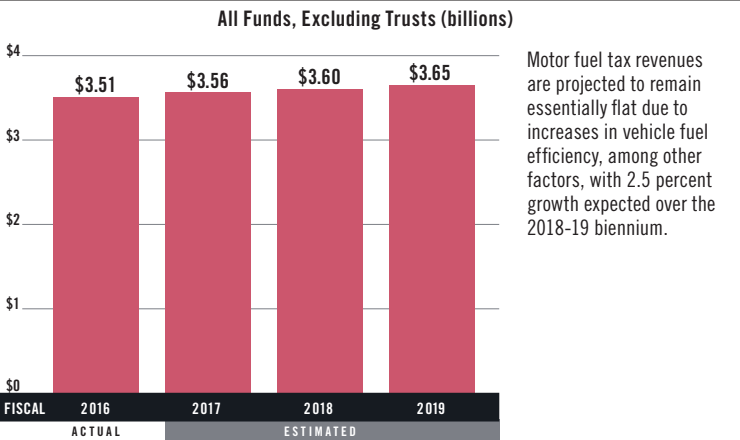
³ Prior to its repeal effective 9/1/15 and after deductions for refunds, the tax revenue was allocated as follows:
Available School Fund 0002 – 25 percent
State Highway Fund 0006 – 75 percent

⁴ This rate is for gasoline and diesel fuel (eligible transit companies qualify for a refund of 1 cent per gallon on gasoline and 1/2 cent per gallon on diesel fuel). A 15 cents-per-gallon rate exists for liquefied natural gas (LNG) and compressed natural gas (CNG).

⁵ The federal tax rate for diesel fuel is \$0.244 per gallon.

⁶ Reflects original distribution of gasoline tax.

REVENUES



MAJOR GASOLINE EXEMPTIONS AND REFUNDS

Collection allowances for licensed distributors, importers or suppliers that make timely tax payments; refunds for taxes paid on gasoline used to power agricultural equipment.

Total Gasoline Tax Exemptions Refunds and Discounts = **\$118.9 MILLION**

LARGEST EXEMPTIONS/REFUNDS	EXEMPTIONS	FISCAL 2017 EST. VALUE (MILLIONS)
1	Collection allowance	\$55.4
2	Agricultural use	\$14.5

HIGHLIGHTS:

REVENUE
FISCAL 2016
\$3.51B

GASOLINE TAX

STATE RATE
\$0.20⁴ PER GALLON

LOCAL RATE
NONE

FEDERAL RATE
\$0.184⁵ PER GALLON

WHO PAYS?⁶

BUSINESS
19.8%

CONSUMER
80.2%

ENACTED 1907

The franchise, or margins, tax is one of the state’s oldest taxes and has been significantly reformed in recent years. Levied for the privilege of doing business in Texas, the tax due is based on an entity’s apportioned taxable margin.¹

In 2006, the Legislature made significant changes to the tax, including transitioning to the taxable margin as the sole base component and expanding the tax to limited partnerships, business trusts and other legal entities.

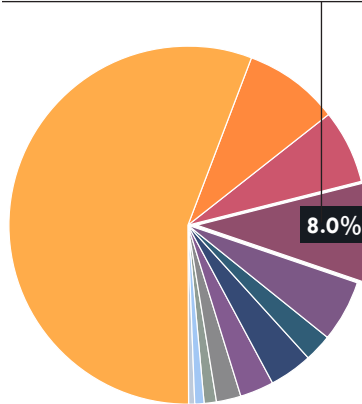
In 2015, the Legislature voted to reduce franchise tax rates by 25 percent.

Percentage of
Total Tax Collection

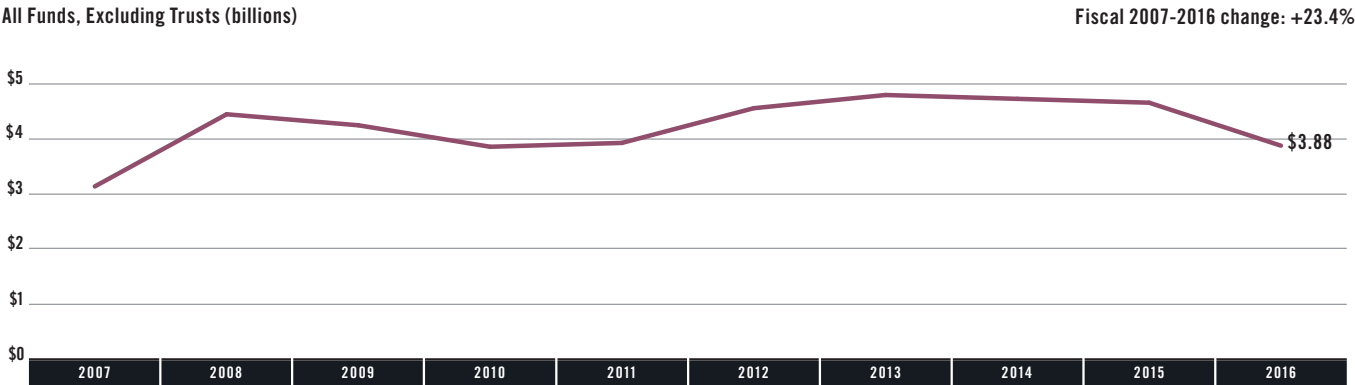
FISCAL 2015

All Funds, Excluding Trusts
\$3.88 BILLION

FRANCHISE TAX



HISTORICAL COLLECTIONS



REVENUE BY SOURCE

TAX	FUND	FISCAL 2016
Franchise/Margins Tax	General Revenue Fund ²	\$2,836,052,586
	Property Tax Relief Fund ³	\$1,035,885,449
Franchise Tax	General Revenue Fund ⁴	\$9,238,414
TOTAL		\$3,881,176,449

FOOTNOTES

¹ Taxable margin is defined as the total revenue less the greater of (1) the cost of goods sold, (2) total compensation, (3) 30 percent of total revenue, or (4) \$1 million. An apportionment factor based on the portion of receipts that occurred in Texas is then applied.

² The estimated amount of franchise tax revenues that would have been generated had the 2006 reforms not occurred.

³ All revenue exceeding the estimated amount that would have been brought in under the previous version of the franchise tax.

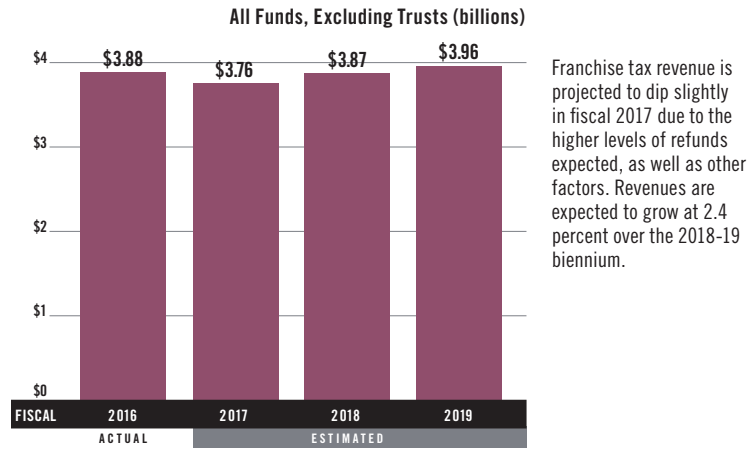
⁴ Reflects net payments and refunds related to franchise tax liability from reports due before the 2008 tax year.

⁵ For filing year 2014, the franchise tax rates were temporarily reduced from 1 to 0.975 percent of taxable margin for most entities, and from 0.5 to 0.4875 percent of taxable margin for retail and wholesale businesses. For filing year 2015, the franchise tax rates were temporarily reduced to 0.95 percent of taxable margin for most entities and 0.475 percent of taxable margin for retail and wholesale businesses. For 2016 and beyond, the rates were permanently reduced to 0.75 percent of taxable margin for most entities and 0.375 percent of taxable margin for retail and wholesale businesses.

⁶ There is no federal franchise tax; however, a corporate income tax is levied at marginal rates ranging from 15 to 39 percent of net income.

⁷ Reflects initial distribution of franchise tax revenue.

REVENUES



MAJOR EXEMPTIONS AND EXCEPTIONS

Certain nonprofits that are exempt from federal income tax; insurance companies subject to annual premium tax; entities with a tax liability of less than \$1,000 or total revenue of not more than \$1,110,000.

Total Tax Exemptions, Deductions, Special Accounting Methods, Credits and Refunds = \$1.42 BILLION		
LARGEST EXEMPTIONS/ EXCEPTIONS	EXEMPTIONS	FISCAL 2017 EST. VALUE (MILLIONS)
1	Certain nonprofit corporations	\$296.4
2	Insurance companies	\$204.8
3	Small business exception	\$193.8

HIGHLIGHTS:

REVENUE
FISCAL 2016

\$3.88B

STATE RATE

0.75%
375%⁵

LOCAL RATE

NONE

FEDERAL RATE

NONE⁶

WHO PAYS?⁷

BUSINESS

100%

CONSUMER

0%

OIL PRODUCTION TAX

ENACTED 1905

The oil production tax is a severance tax on the removal of crude oil from Texas land. The rate has remained unchanged since 1951, longer than any other major state tax. Twenty-five percent of the revenue from this tax is allocated to the Foundation School Account, with the remaining amount deposited into General Revenue. Portions of the amount deposited into General Revenue may be transferred to the Economic Stabilization Fund and the State Highway Fund.

In 2015, the Legislature repealed the oil regulation tax.

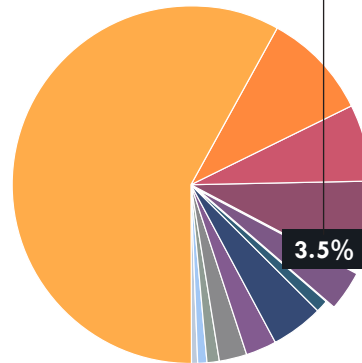
Percentage of
Total Tax Collection

FISCAL 2016

All Funds, Excluding Trusts

\$1.70 BILLION

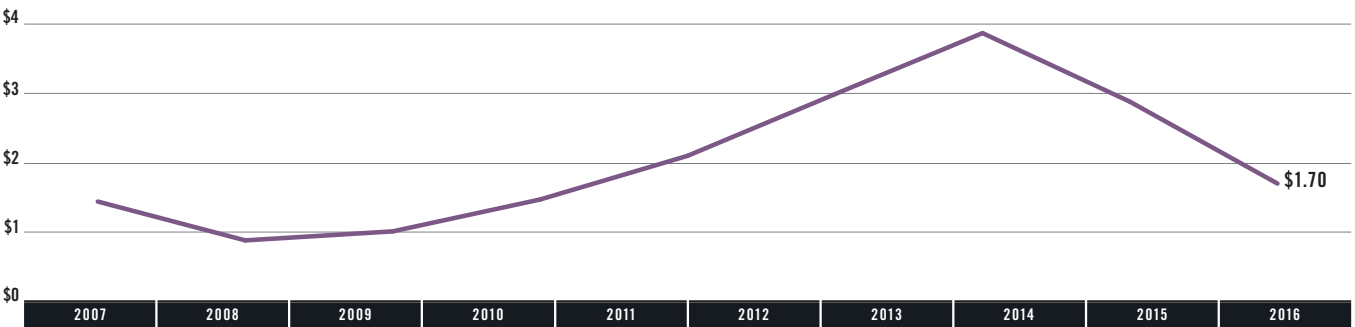
OIL PRODUCTION TAX



HISTORICAL COLLECTIONS

All Funds, Excluding Trusts (billions)

Fiscal 2007-2016 change: +104.1%



REVENUE BY SOURCE

TAX	FUND	FISCAL 2016
Oil Production Tax	General Revenue Fund ¹	\$1,703,902,576
Oil Regulation Tax ²	General Revenue Fund	\$380,077
TOTAL		\$1,704,282,653

FOOTNOTES

¹ Twenty-five percent is statutorily dedicated to public education funding and allocated to the Foundation School Account.

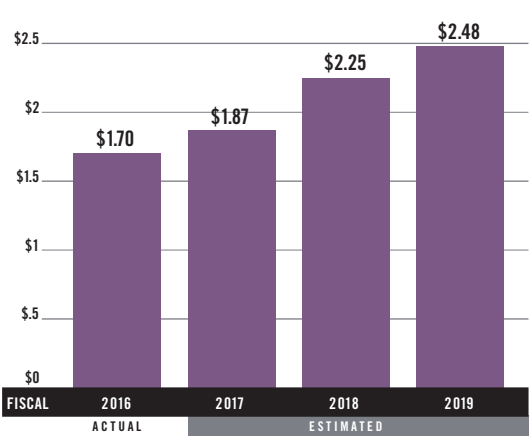
² The 0.1875 cents-per-barrel oil regulation tax was abolished effective 9/1/15.

³ Or 4.6 cents on each barrel for oil production, whichever is greater.

⁴ Reflects initial distribution of oil production tax revenue.

REVENUES

All Funds, Excluding Trusts (billions)



Oil tax revenues are projected to rebound somewhat over the next several years as the average price increases and production shifts to lower-cost areas such as the Permian Basin. These trends are expected to result in a growth rate of 32.3 percent during the 2018-19 biennium.

MAJOR EXEMPTIONS

Tax credits for qualifying low-producing oil leases; special tax rate for wells approved as enhanced oil recovery projects.

Total Tax Exemptions =
\$91.5 MILLION

LARGEST EXEMPTIONS	EXEMPTION	FISCAL 2017 EST. VALUE (MILLIONS)
1	Low-producing wells	48.0
2	New or expanded enhanced recovery project	32.0

HIGHLIGHTS:

REVENUE
FISCAL 2016
\$1.70B

STATE RATE
4.6%³ OF MARKET VALUE
LOCAL RATE
NONE
FEDERAL RATE
NONE

WHO PAYS?⁴
BUSINESS
100%
CONSUMER
0%

NATURAL GAS PRODUCTION TAX

ENACTED 1931

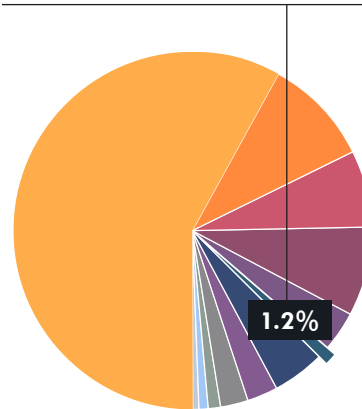
Natural gas production is taxed as part of Texas' severance tax structure, which taxes the removal of natural resources from land. The tax is imposed on the market value of gas produced in the state. Twenty-five percent of the revenue from this tax is deposited into the Foundation School Account, with the remaining amount deposited into General Revenue. Portions of the amount deposited into General Revenue may be transferred to the Economic Stabilization Fund and the State Highway Fund.

Percentage of Total Tax Collection

FISCAL 2016

All Funds, Excluding Trusts
\$0.58 BILLION

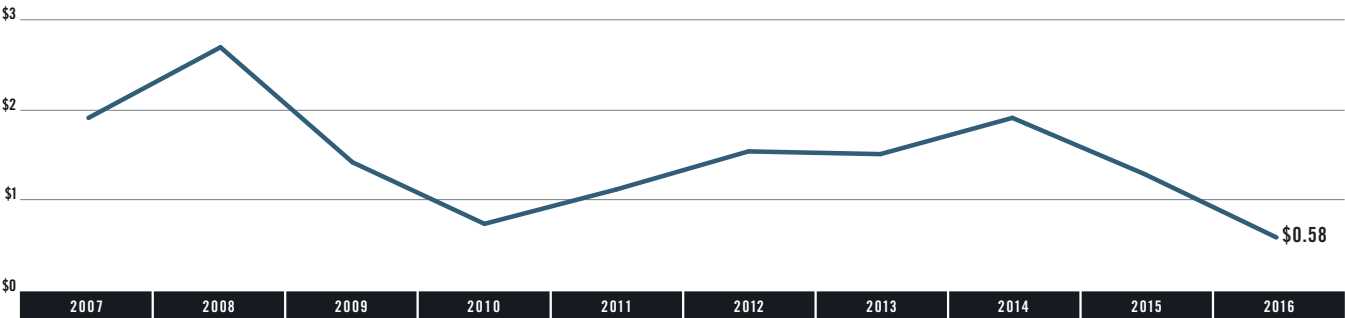
NATURAL GAS PRODUCTION TAX



HISTORICAL COLLECTIONS

All Funds, Excluding Trusts (billions)

Fiscal 2007-2016 change: -69.5%



REVENUE BY SOURCE

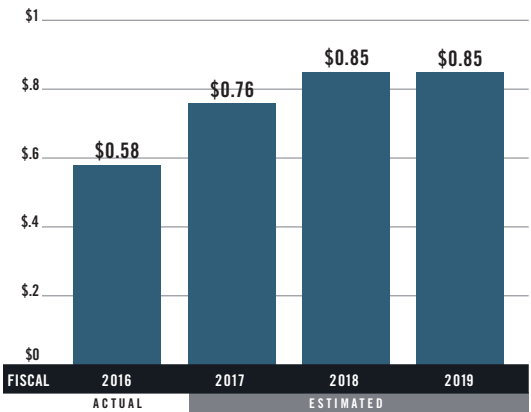
TAX	FUND	FISCAL 2016
Natural Gas Production Tax	General Revenue Fund ¹	\$578,798,864
TOTAL		\$578,798,864

FOOTNOTES

- ¹ Twenty-five percent is statutorily dedicated to public education funding and allocated to the Foundation School Account.
- ² Tax rate for condensate is 4.6 percent.
- ³ Amount is estimated by Comptroller, although the tax's value is insufficient to meet the statutory threshold for inclusion in the *Tax Exemptions & Tax Incidence 2016* report.

REVENUES

All Funds, Excluding Trusts (billions)



Natural gas tax revenues are projected to grow 27.0 percent over the 2018-19 biennium due to average prices increasing above their fiscal 2016 low.

MAJOR EXEMPTIONS

Reduced tax rates applied for approved "high-cost" gas wells based upon drilling and completion costs for each well, and exemptions applied for low-producing gas wells that had production of 90,000 cubic feet per day.

Total Tax Exemptions =
\$380.6 MILLION

LARGEST EXEMPTIONS	EXEMPTIONS	FISCAL 2017 EST. VALUE (MILLIONS)
1	High-cost natural gas	\$328.5
2	Qualifying low-producing gas wells	\$48.6

HIGHLIGHTS:

REVENUE
FISCAL 2016

\$0.58B

STATE RATE

7.5%²

LOCAL RATE

NONE

FEDERAL RATE

NONE

WHO PAYS?³

BUSINESS

100%

CONSUMER

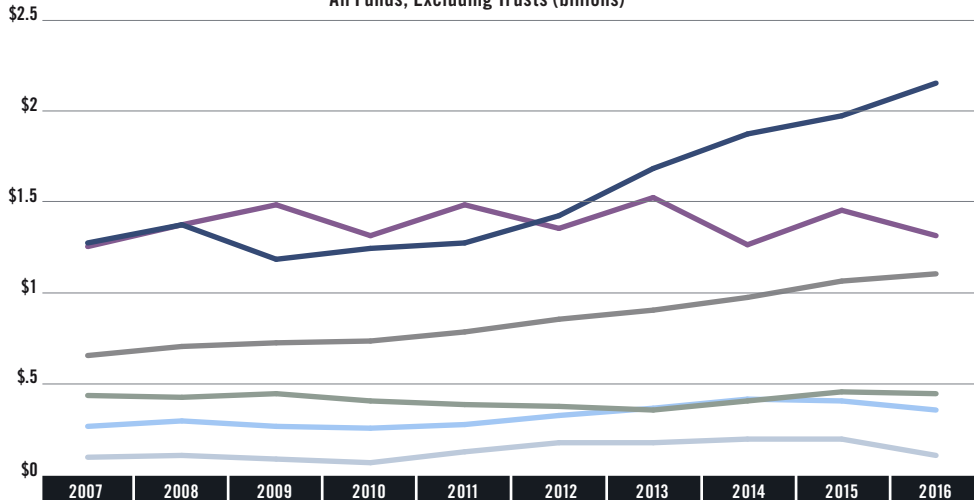
0%

ADDITIONAL STATE TAXES

HISTORICAL COLLECTIONS

FISCAL 2007-2016

All Funds, Excluding Trusts (billions)



INSURANCE TAXES

Insurance taxes include premium taxes and more than a dozen maintenance taxes collected on behalf of the Texas Department of Insurance. Insurance premium taxes generally apply to taxes paid on insurance that covers risk located in Texas.

REVENUE: \$2.23 BILLION

TAX	RATE
Life Insurance and HMO	0.875% of the first \$450,000 1.75% in excess of \$450,000
Property and casualty insurance	1.6%
Accident and health insurance	1.75%
Unauthorized, independently procured and surplus lines insurance	4.85%
Licensed captive insurance companies	0.5%
Title insurance	1.35%

NOTE

In 2015, the Legislature eliminated these taxes that are no longer levied.

- Airline/passenger train beverage tax
- Bingo rental tax
- Controlled substances tax
- Inheritance tax
- Fireworks tax
- Liquefied gas tax
- Oil regulation tax
- Sulphur tax

FISCAL 2016 REVENUE FROM ALL ADDITIONAL STATE TAXES:

\$5.936 BILLION

CIGARETTE AND TOBACCO TAXES

Cigarette and tobacco taxes include the cigarette tax and the cigar and tobacco products taxes.

REVENUE: \$1.39 BILLION

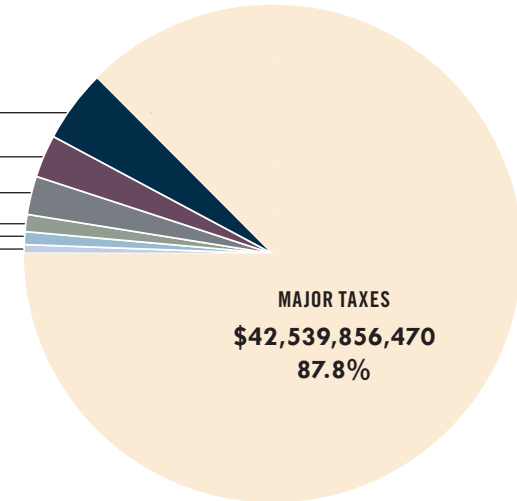
TAX	RATE
Cigarettes	\$70.50 per 1,000 cigarettes weighing 3 pounds or less (\$1.41 per pack of 20)
Cigars and tobacco products	Cigars weighing 3 pounds or less per 1,000 – 1 cent for each 10 cigars Cigars weighing more than 3 pounds per 1,000 and retailing for not more than 3.3 cents each – \$7.50 per 1,000 Cigars weighing more than 3 pounds per 1,000 and retailing for over 3.3 cents each, containing no substantial amount of non-tobacco ingredients – \$11 per 1,000 Cigars weighing more than 3 pounds per 1,000 and retailing for over 3.3 cents each, containing a substantial amount of non-tobacco ingredients – \$15 per 1,000 Tax on each can or package of tobacco products (other than cigars, cheroots or stogies) is \$1.22 per ounce and a proportionate rate on all fractional parts of an ounce.

PERCENTAGE OF TOTAL TAX COLLECTIONS

FISCAL 2016

All Funds, Excluding Trusts

INSURANCE TAXES	% OF TAXES
\$2,226,724,848	4.6%
CIGARETTE AND TOBACCO TAXES	
\$1,388,362,823	2.9%
ALCOHOLIC BEVERAGE TAXES	
\$1,182,548,508	2.4%
HOTEL OCCUPANCY TAX	
\$521,152,526	1.1%
UTILITY TAXES	
\$434,964,944	0.9%
OTHER TAXES	
\$182,616,105	0.4%



ALCOHOLIC BEVERAGE TAXES

Alcoholic beverage taxes consist of separate excise taxes on the first sale in Texas of liquor, beer, wine and malt liquor (also known as ale); and the mixed beverage gross receipts tax and mixed beverage sales tax on alcoholic beverages sold to consumers by mixed beverage and private club permittees.

REVENUE: \$1.18 BILLION

TAX	RATE
Beer	\$6.00 per 31-gallon barrel
Liquor	\$2.40 per gallon
Wine	Alcohol volume ≤14% – 20.4¢ per gallon; >14% – 40.8¢ per gallon; sparkling wine – 51.6¢ per gallon
Malt liquor (Ale)	19.8¢ per gallon
Mixed beverage	6.7% of gross receipts 8.25% sales tax

HOTEL OCCUPANCY TAX

The hotel occupancy tax is imposed on a person who pays for a hotel room or space that costs \$15 or more per day.

REVENUE: \$0.52 BILLION

RATE
6% of room rate paid by occupant

UTILITY TAXES

Utility taxes are a group of three related revenue sources, including the gas, electric and water utility tax, the public utility gross receipts assessment, and the gas utility pipeline tax.

REVENUE: \$0.43 BILLION

TAX	RATE
Gas, electric and water utility	Cities 1,000-2,499 population – 0.581% of gross receipts Cities 2,500-9,999 population – 1.070% of gross receipts Cities ≥10,000 population – 1.997% of gross receipts
Public utility gross receipts assessment	One sixth of 0.166% of gross receipts
Gas utility pipeline	0.5% of gross income of gas utilities

OTHER TAXES

Other taxes include the cement tax, oil and gas well servicing tax, occupation tax, combative sports admissions tax, coin-operated amusement machine tax, unemployment assessments and the tax refunds to employers of recipients of Temporary Assistance for Needy Families.

REVENUE: \$0.18 BILLION

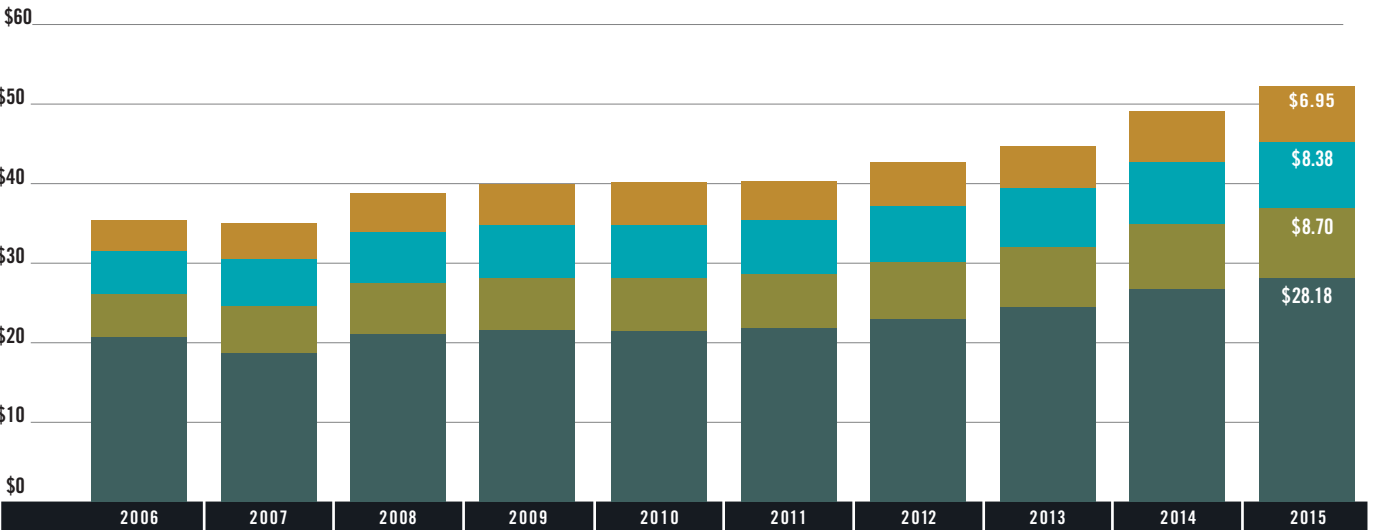
ENACTED 1837

Property taxes are often the primary source of revenue for local governments. These taxes are levied through two rates: the maintenance and operations (M&O) rate, and the interest and sinking (I&S) rate, which is dedicated to debt service.

Texas stopped levying a statewide property tax in 1980. Property tax revenues collected by public school districts, however, have a large impact on the state budget. The Foundation School Program, the primary mechanism for distributing money to school districts, is funded through a mix of state, local and federal revenues and it is the single largest appropriation in the state budget.

LOCAL PROPERTY TAX LEVIES

All Funds, Excluding Trusts (billions)



ENTITIES REPORTING BY TYPE (2015)¹

- SCHOOL DISTRICTS - 1,019
- CITES - 1,069
- COUNTIES - 254
- SPECIAL PURPOSE DISTRICTS - 1,834

Source: Tax Rates and Levies, Texas Comptroller of Public Accounts

FOOTNOTES

¹ Since 2011, reporting special purpose district data to the Comptroller has been optional, so the figures represent calculated totals based on data self-reported to the Comptroller only, not actual total property tax levies. The Comptroller does not guarantee the accuracy of self-reported information.

² Maximum rates represent the general rule applied to nearly all applicable entities. There may, however, be cases in which some entities can either exceed this limit or are subject to a more restrictive tax rate limit.

³ Average property tax rates are weighted by calculated property tax levies and only include entities that reported the respective tax rates to the Comptroller's office.

⁴ On Nov. 3, 2015, voters passed a constitutional amendment that increased the minimum homestead exemption to \$25,000.

AVERAGE PROPERTY TAX RATES³

	M&O	I&S
School districts	\$1.063	\$0.276
Cities	\$0.411	\$0.167
Counties (General Fund)	\$0.327	\$0.057

EXEMPTIONS, DISCOUNTS AND SPECIAL APPRAISALS

Valuation of agricultural or timber land at productivity value, various property value exemptions for residence homesteads and certain veterans; cap on taxes paid by homeowners age 65 and older or disabled, limitation on growth of appraised value, exemption of certain tangible property being transported out of the state within 175 days, economic development activity under Chapter 313, and pollution control property.

Total Tax Exemptions, Discounts and Special Appraisals =
\$11.80 BILLION

LARGEST EXEMPTIONS AND DISCOUNTS	EXEMPTIONS	FISCAL 2017 EST. VALUE (BILLIONS)
1	Special appraisals for agricultural and timber land	\$3.56
2	Residence homestead exemptions ⁴	\$2.84
3	School tax ceiling; age 65 and older or disabled	\$0.77
4	Ch. 313 - Texas Economic Development Act	\$0.51
5	Freeport property and cotton stored in warehouses	\$0.48
6	Limitation on appraised value of residence homestead (10% cap)	\$0.33

MAXIMUM RATES²
(PER \$100 IN PROPERTY VALUE)

SCHOOL DISTRICTS

M&O **\$1.17**
I&S **\$0.50**

CITIES
CITIES AND TOWNS WITH POPULATION ≤ 5,000

\$1.50

CITIES WITH POP. > 5,000

\$2.50

LOCAL SALES TAXES

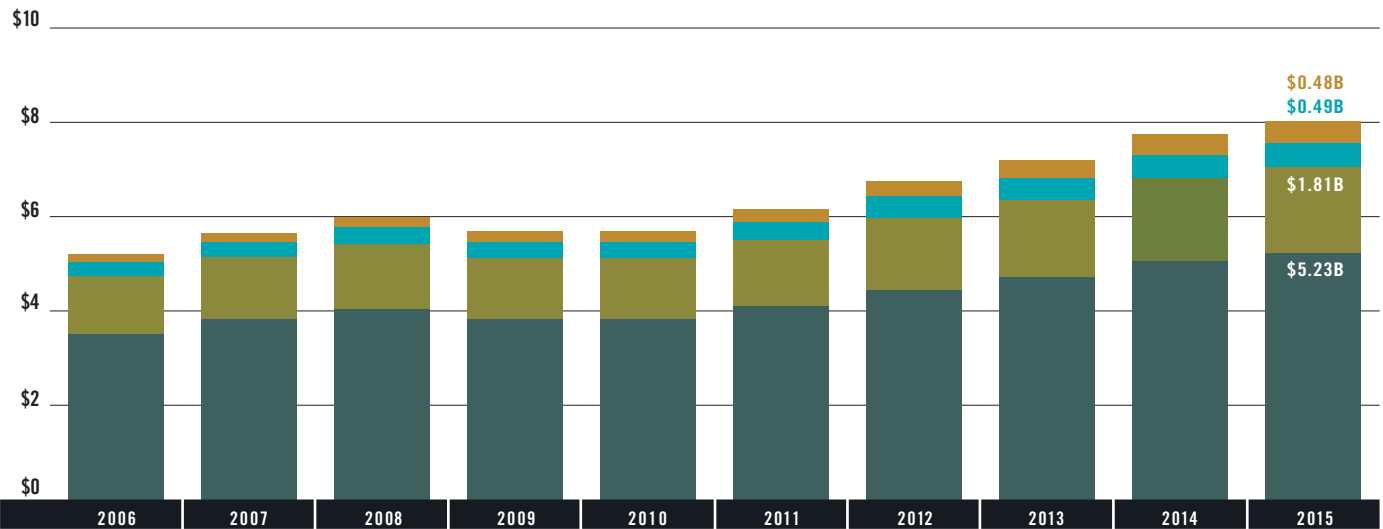
ENACTED 1967

More than 1,500 local governmental entities levied a sales tax during 2015, including 49 percent of counties and 95 percent of cities.

The local sales tax is collected by the retailer and remitted to the Comptroller's office along with the state sales tax. The Comptroller distributes the local portion of sales tax collections monthly to local entities.

HISTORICAL LOCAL SALES TAX ALLOCATIONS

All Funds, Excluding Trusts (billions)



ENTITIES BY TYPE

CITIES - 1,153	COUNTIES - 123
TRANSIT ENTITIES - 10	SPECIAL PURPOSE DISTRICTS - 287

NOTES AND SOURCES

Note: These figures represent sales tax allocations made during each calendar year. Revenue is allocated to local governments two months after taxes are paid to a business.
Source: Allocation Historical Summary, Texas Comptroller of Public Accounts, October 2016

AVERAGE SALES TAX RATES

CITIES	COUNTIES	TRANSIT ENTITIES	SPECIAL PURPOSE DISTRICTS
1.49%	0.51%	0.60%	0.76%

NOTES AND SOURCES

Note: The unweighted averages above include only entities that levied sales taxes.
Source: Texas Comptroller of Public Accounts, Texas Sales and Use Tax Rates

MAXIMUM RATES

THE SUM OF ALL LOCAL RATES CANNOT EXCEED 2%.

CITIES 2%

COUNTIES 1.5%

TRANSIT ENTITIES 1%

SPECIAL PURPOSE DISTRICTS 2%

The Constitution requires the Comptroller to estimate the amount of revenue available for general-purpose spending each biennium to fund public services delivered by state agencies and public colleges and universities.

Legislators must approve a balanced budget for state spending that may be less than, but not exceed, this biennial revenue estimate (BRE), which is published just before the start of each legislative session. Starting in fiscal 2018, determining the amount of revenue for general purpose spending follows the formula below:

Formula for Available General Revenue in BRE	
+	General Revenue-Related (GR-R) Revenues from Sales Taxes
-	Sales Taxes Allocated to State Highway Fund
+	Other GR-R Revenues
+	Beginning Balance
-	Revenue Reserved for Transfers to the Economic Stabilization and State Highway Funds
=	Total Revenue Available for General-Purpose Spending

General Appropriations Act — “The Budget”

The General Appropriations Act (GAA) is the Texas state government’s two-year budget. The state constitution requires that this budget be balanced.

State budget writers are also required to limit spending growth from the current budget to the next. Under this spending limit, the growth rate of spending from tax revenue not dedicated by the constitution must not exceed the estimated rate of personal income growth selected by the Legislative Budget Board. Only majority votes by both the House and Senate can override the spending limit. For the 2018-19 biennium, the Board approved an 8.0 percent cap on spending growth.

State Spending Decisions

In recent years, Texas has spent the majority of its available revenue — encompassing general revenue, dedicated funds, federal funds and other funds — on:

- health and human services programs such as Medicaid, adult and child protection and assistance to the disabled and those in poverty;
- public education spending that supplements local property tax revenues;
- transportation, road and bridge maintenance and construction, and airports;
- higher education;
- law enforcement, courts and prisons;
- state government operations; and
- natural resources and state parks.

The Budgeting Process in Brief

Each state agency prepares a detailed legislative appropriations request (LAR) itemizing the funding it is seeking for the upcoming biennium.

After several reviews, hearings and approvals, the LBB uses the LARs to draft the general appropriations bill, which is then submitted to the Legislature.

The Governor also submits an independently developed budget to the Legislature.

Prior to the legislative session, the Comptroller’s office issues an estimate (**Biennial Revenue Estimate, or BRE**) of the funds to be available from taxes and other revenue sources for the biennium. Following the regular legislative session, the Comptroller reevaluates this estimate in light of changing economic conditions, as well as the fiscal impacts of any legislative changes. A **Certification Revenue Estimate** is published early in the new biennium giving lawmakers an updated picture of the state’s expected fiscal condition during the two-year budget cycle.

Budget Approval Steps

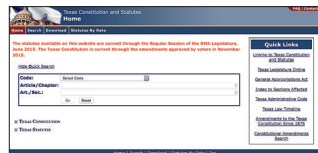
- The Texas House Committee on Appropriations and the Senate Finance Committee simultaneously deliberate on the general appropriations bill. After the committees pass their versions of the bills, the full House and Senate consider each version of the budget.
- A conference committee of both House and Senate members works to combine the two versions into the final General Appropriations Act, which is then voted on by both the House and the Senate.
- Once approved, it goes to the Comptroller’s office for final certification that the bill is within available revenue.
- The last step is the Governor’s signature. Once signed, the bill becomes law, allocating the state’s funds for two more years.

BIENNIAL REVENUE ESTIMATE A CLOSER LOOK January 2017

Revenue Available for General Purpose Spending		2016-17	2018-19	In Billions
General Revenue-Related (GR-R) Revenues from Sales Taxes (Before allocation to State Highway Fund)	+	\$56.83	\$61.97	
Sales Taxes Allocated to State Highway Fund	-	\$0.0	\$4.71	
Net GR-R Revenues from Sales Taxes	=	\$56.83	\$57.26	SUBTOTAL
Other GR-R Revenues	+	\$45.61	\$49.21	
Total GR-R Revenues	=	\$102.45	\$106.47	SUBTOTAL
Beginning Balance (Funds carried forward)	+	\$7.29	\$1.53	
Total GR-R Revenue & Fund Balances	=	\$109.73	\$108.00	SUBTOTAL
Revenue Reserved for Transfers to the Economic Stabilization and State Highway Funds	-	\$2.0	\$3.13	
Total Revenue Available for General-Purpose Spending	=	\$107.73	\$104.87	TOTAL

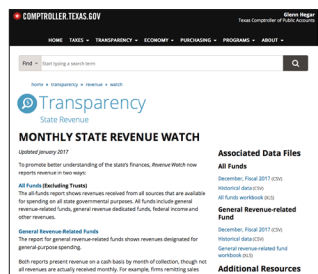
In 2015, voters approved Proposition 7, which requires the Comptroller to direct some tax revenues to the State Highway Fund starting in fiscal 2018.

Texas Tax Code



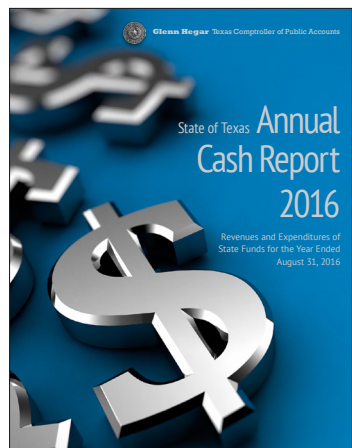
Select “Tax code” followed by the desired chapter and section to see statutes.

Monthly Revenue Watch



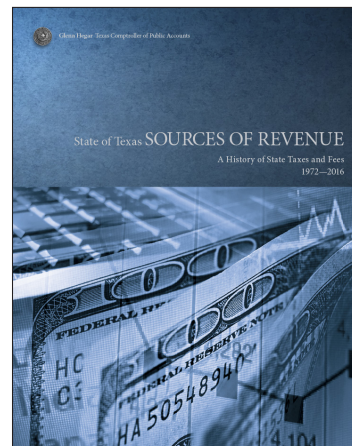
Net state revenue collections by source are posted monthly to the Comptroller’s website.

Texas Annual Cash Report



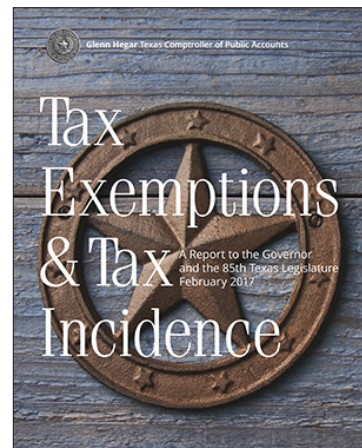
This report presents the state’s financial condition, details revenues and expenditures on a cash basis, and shows revenue and expenditure details for all funds in the Texas Treasury (November 2016).

Sources of Revenue: A History of State Taxes and Fees in Texas



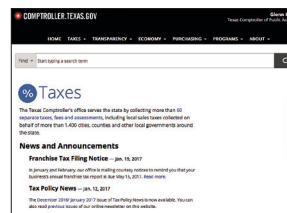
Providing a historical perspective, this guide reports on the current status of state revenue sources (January 2017).

Tax Exemptions & Tax Incidence



This legislatively required report estimates the value of exemptions, exclusions, discounts, deductions, special accounting methods, credits, refunds and special appraisals available under Texas’ major state taxes and school property taxes (February 2017).

Texas Taxes and Tax Publication webpages



The Comptroller’s office maintains extensive online resources on the more than 60 taxes, fees and assessments that the office collects.

Biennial Revenue Estimate

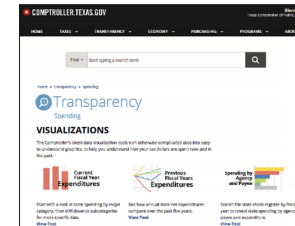


The Comptroller forecasts the amount of revenue available for spending each biennium, which Legislators then use to craft the state’s budget (January 2017).

Certification Revenue Estimate

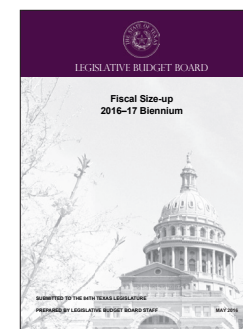
The Comptroller forecasts the amount of revenue available for spending during the current biennium based on the anticipated condition of the economy, incorporating changes to taxes and fees adopted by the Legislature during the previous session (October 2015).

State Spending: Where the Money Goes



These interactive tools on the Comptroller’s website show state spending by agency, purchase code, category and more.

Fiscal Size-Up

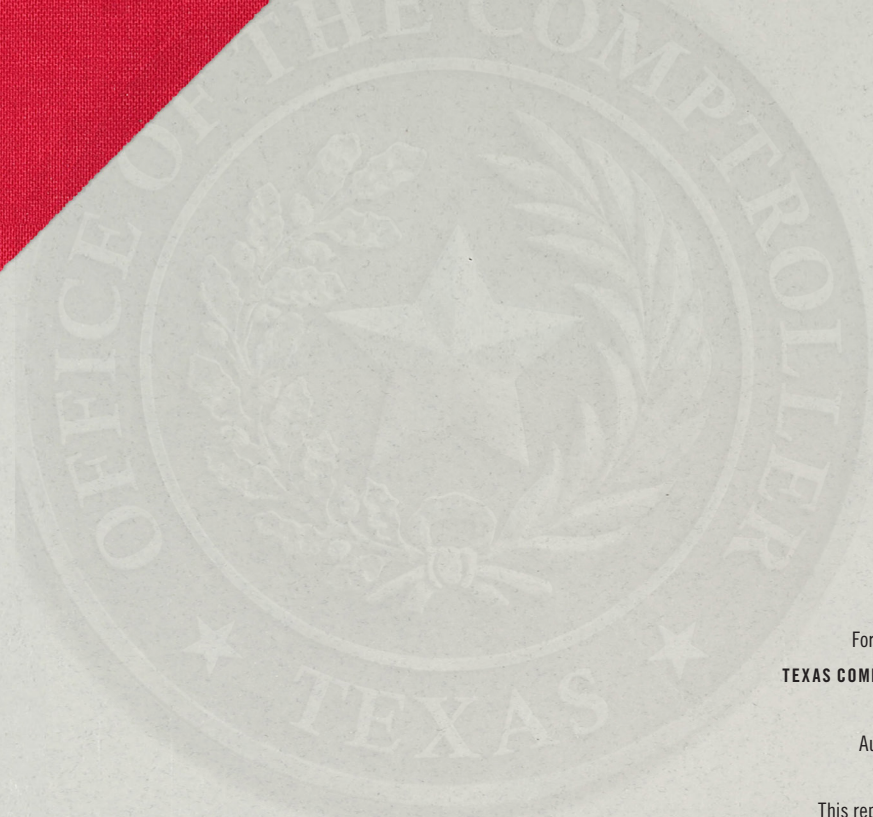


The Legislative Budget Board produces this biennial report: a single source of information on the budget, fiscal actions of each legislature and the state’s fiscal condition (May 2016).

State Tax Automated Research (STAR) System



This online policy resource center facilitates research on Texas tax law and tax policy.



For additional copies, write:

TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

P.O. Box 13528

Austin, Texas 78711-1440

This report is also available online at

comptroller.texas.gov/transparency/revenue/resources.php.

In compliance with the Americans with Disabilities Act,
this document may be requested in alternative formats
by emailing transparency@cpa.texas.gov.



Glenn Hegar

Texas Comptroller of Public Accounts